

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

MENNAA Youghourthene* ¹, Higher School of Accounting and Finance, Algeria,
ymennaa@escf-constantine.dz

Send Article Date: 02 /08/2025

Date of acceptance of the article: 08/12/2025

Abstract:

This prospective study focuses on the challenges of opening the capital of public banks in Algeria, through an analysis centered on the Crédit Populaire d'Algérie (CPA) and Banque de Développement Local (BDL). By examining the institutional foundations, reform dynamics, and stakeholders' perceptions, it assesses the capacity of this transformation to modernize the Algerian banking sector. Three modernization scenarios are proposed, integrating aspects of governance, digitalization, and social mission. The results suggest that success will depend on balancing public control and economic efficiency.

key words: Banking Reform, Modernization, Capital Opening, CPA, BDL.

Introduction:

The opening of public banks' capital is a particular form of structural reform intended to strengthen the efficiency and governance of financial institutions. It refers to the process whereby the State allows private actors to acquire shares in banks that were previously fully public, with the aim of improving their performance, transparency, and adaptability. In Algeria, this approach marked a turning point with the partial opening of Crédit Populaire d'Algérie in 2024, followed by Banque de Développement Local in 2025. These two institutions occupy a central position within the national banking system.

This reform is taking place in a complex economic and institutional environment, shaped by increasing demands to diversify sources of financing, ease the fiscal burden on the State, and support the accelerated digital transformation of the banking sector. According to Bensilette (2024), strengthening governance principles and ensuring rigorous risk management are essential to safeguard the stability and long-term sustainability of Algerian banks in a context of growing competition.

*MENNAA Youghourthene: ymennaa@escf-constantine.dz

While capital opening is often presented as a pathway to modernization, it also raises important concerns. Questions are emerging about the ability of public banks to preserve their social missions, maintain their connection to local territories, and resist pressure from private actors focused solely on short-term profitability. This context gives rise to a central question. **To what extent can the opening of public banks' capital contribute to the modernization of Algeria's banking sector while preserving its economic and social functions?**

The objective of this study is to present the opening of bank capital as a strategic instrument for transforming the banking sector, rather than merely a financial operation. It explores the institutional and historical context, analyzes the views of key stakeholders, and assesses the ongoing dynamics of change. It also outlines potential modernization paths through a forward-looking, scenario-based approach.

The reflection builds on three main hypotheses. The first is that capital opening, if supported by governance reforms, could enhance managerial efficiency and increase transparency in public banks. The second is that the involvement of private actors could encourage investment in technological innovation and accelerate the digitalization of banking services, thereby promoting the functional modernization of the sector. The third hypothesis suggests that in the absence of a clear regulatory framework and strategic oversight, the reform could undermine public service objectives, deepen inequalities in access to credit, and lead to a drift toward a purely financial logic.

To support these hypotheses, this study adopts an analytical and forward-looking methodology. It draws on a critical review of legal texts, institutional reports, and recent academic literature. It also incorporates the analysis of discourses and positions expressed by key stakeholders. This approach makes it possible to identify both the levers and the risks of the reform and to propose coherent scenarios that may inform future choices by public authorities and financial regulators.

THE FIRST TOPIC: INSTITUTIONAL AND CONCEPTUAL FOUNDATION OF BANK CAPITAL OPENING

Understanding the challenges of opening public banks' capital in Algeria requires examining the institutional context and theoretical foundations of the reform. This section analyzes the historical development of the banking sector and the economic frameworks that support modernization in transition economies. It is structured in two chapters: the first addresses the institutional and historical background, and the second focuses on theoretical approaches and the role of capital opening in reform strategies.

FIRST REQUIREMENT: INSTITUTIONAL AND HISTORICAL FRAMEWORK OF BANKING REFORM IN ALGERIA

This chapter examines the evolution of the Algerian banking system from post-independence nationalization to recent capital-opening reforms. It focuses on key stages of reform, their motivations, and their limitations, highlighting the shift from a centralized model to a more competitive framework emphasizing modernization, governance, and private sector involvement.

Firstly: The Evolution of the Algerian Banking System

The development of Algeria's banking system mirrors the country's post-independence economic and political changes. While modernization has progressed, historical legacies continue to shape the sector. This perspective sheds light on the reform drivers, institutional resistance, and current challenges linked to digitalization and global integration.

1. The Socialist Model and the Nationalization of the Banking Sector (1962–1988)

The Algerian banking system emerged under a socialist economic model in which the State held a central role in resource allocation. Economic financing relied mainly on budgetary savings, and banks did not prioritize the mobilization of domestic savings, thereby sidelining the private sector. This period was marked by strong state intervention through the nationalization of existing banks and the creation of large, specialized public institutions. Two key dimensions help explain the dynamics of this phase.

a. A Banking System Serving Economic Planning

At independence, Algeria adopted a socialist model in which the State controlled the main economic resources to ensure national sovereignty and centralized organization. The 1966 nationalization of French banks led to the creation of a public banking sector, including institutions such as BNA, BEA, CPA, BDL, CNEP, and BADR.

The system was designed to direct credit towards public enterprises in support of centralized planning. Acting as the main planner, the State used the banking system as a financial instrument to fund industrial priorities (Baba-Ahmed, 2007).

However, this state-led model limited access to credit for individuals and constrained private initiative. It reflected a rigid, politically-driven vision of finance that prioritized control over innovation. While rooted in a post-colonial logic of regaining national control, the model ultimately hindered financial diversification and innovation.

b) Economic Limitations and the Need for Reform

The socialist model soon showed its weaknesses, as oil dependency made Algeria vulnerable to external shocks like the 1986 crisis, which deepened fiscal imbalances and weakened the banking sector. Oriented toward public enterprises, the system discouraged private savings and limited diversification. In response, Law No. 86-12 of August 19, 1986, on the regime of banks and credit, was enacted to establish a structured legal framework for banking activity and improve credit regulation¹. Despite evident reform needs, institutional and political resistance persisted due to the sector's social and political roles, and state control hindered its adaptability.

2- A Controlled Liberal Reform (1989–1999)

In response to the limitations of the centralized model and the economic crisis of the 1980s, Algeria initiated reforms to liberalize and restructure its banking sector. This cautious transition marked a clear departure from the previous system. According to Aboura and Chahidi (2017), it launched a gradual modernization process driven by institutional and regulatory reforms aimed at enhancing efficiency and integrating the sector into the international financial system. This transformation was structured around several major developments:

a- The Legal Transformation of Public Banks

The enactment of Law No. 90-10 in 1990² marked a key legal turning point, ending the state monopoly and introducing a legal framework aligned with commercial law principles. Public banks were converted into joint-stock companies, an institutional shift intended to increase accountability, strengthen transparency, and improve governance.

However, this process was not merely formal: it required a profound change in mindset and managerial practices, as well as the adaptation of oversight systems, demands that called for time and sustained effort. Moreover, the opening of the sector to competition raised concerns about the ability of public banks to withstand pressure from private actors, both domestic and foreign, who were often better equipped.

b- Gradual Opening under International Influence

¹ Law No. 86-12 of August 19, 1986, on the Regime of Banks and Credit, Official Journal of the People's Democratic Republic of Algeria.

² Law No. 90-10 of 14 April 1990 on Money and Credit, Official Journal of the People's Democratic Republic of Algeria, No. 16, dated 18 April 1990.

Algeria's banking reform has unfolded within the context of financial globalization, shaped by institutions like the IMF and World Bank. While external support offered technical and financial assistance, it also raised concerns over sovereignty. The gradual approach taken by Algerian authorities reflects a balance between openness and the protection of national interests.

3- Regulatory Consolidation and Gradual Modernization (2000–2010)

In the early 2000s, banking reform deepened with a dual objective: to consolidate regulatory achievements and to modernize the sector in order to attract foreign investors and align the system with international standards.

a- Strengthening the Regulatory Framework and the Emergence of Foreign Players

The 2003 revision of the monetary and credit law, through *Ordinance No. 03-11 of August 26, 2003*, enhanced the legal framework, expanding the role of the Bank of Algeria and tightening oversight of credit institutions³. According to Mohamed Laksaci (2015), early 2000s reforms focused on recapitalization and the state's absorption of non-performing loans to restore financial stability. However, without changes in governance or risk management, this support risked moral hazard. Liberalization improved practices and diversified products but also revealed the structural limitations of public banks.

b-Technological Modernization and the Development of Financial Markets

The introduction of electronic payment systems since 2005 and the launch of RTGS and ARTS⁴ platforms in 2006 demonstrate efforts to modernize Algeria's financial infrastructure and improve transaction efficiency. The Algiers Stock Exchange, operational since 1999, aimed to diversify financing, but its impact has been limited by regulatory barriers, tax constraints, and a weak entrepreneurial environment.

4- Acceleration of Digitalization and International Opening (2010–2025)

More recently, Algeria's banking system has experienced an acceleration of transformations driven by digital technologies and economic openness, with key challenges relating to alignment with international standards.

a- Increased Digitalization and Technological Innovations

³ *Ordinance No. 03-11 of 26 August 2003, modifying and supplementing Law No. 90-10 of 14 April 1990 on Monetary and Credit*, Official Journal of the People's Democratic Republic of Algeria.

⁴ The Real-Time Gross Settlement (RTGS) system, named ARTS (Algeria Real Time Settlement System), was launched by the Bank of Algeria in February 2006 as part of a program to modernize the interbank payment infrastructure.

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

In Algeria, the digital transformation of the banking sector is gaining momentum, particularly through the expansion of e-banking, contactless payments, and fintech solutions. A key milestone was the adoption of *Law No. 23-09 of June 2023*, which introduced a legal framework for both the Algerian digital dinar, a central bank digital currency, and the establishment of fully digital banks operating without physical branches⁵. These reforms aim to promote financial inclusion and modernize payment systems. However, their implementation still faces structural challenges, including limited infrastructure, a shortage of digital expertise, and institutional rigidities that hinder innovation.

b- International Opening and Recent Structural Reforms

The partial capital opening of public banks like Crédit Populaire d’Algérie and Banque de Développement Local signals a strong political will to modernize the sector and align with global standards. At the same time, the expansion abroad, especially in France, aims to support the diaspora but raises concerns about cross-border risk management.

Secondly: The Weight and Role of Algerian Public Banks in the Economy

Algeria’s banking sector remains largely dominated by public banks, which hold a major share of assets, deposits, and loans, reflecting the legacy of the socialist model and continued state influence.

1- A comparative analysis of 2024 financial data for CPA and BDL examines their size, intermediation capacity, profitability, branch network, and solvency.

Table 1: Key Financial Indicators of CPA and BDL in 2024

Bank	Total Assets (Billion DZD)	Deposits (Billion DZD)	Loans (Billion DZD)	Net Banking Income (Billion DZD)	Number of Branches	Solvency Ratio ⁶	Return on Equity (ROE)
------	----------------------------	------------------------	---------------------	----------------------------------	--------------------	-----------------------------	------------------------

⁵ *Law No. 23-09 of June 21, 2023, on Monetary and Banking Law*, Official Journal of the People’s Democratic Republic of Algeria, No. 39, June 25, 2023.

⁶ In accordance with Regulation No. 14-01 of the Bank of Algeria (Article 4), banks are required to maintain a solvency ratio of at least 12 percent, consisting of a minimum threshold of 9.5 percent of regulatory capital relative to risk-weighted assets, supplemented by a 2.5 percent capital conservation buffer, in line with Basel III standards.

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

CPA	3237,017	1 862,28	1 273,2	74,42	165	21,63%	16,3 %
BDL	1 834,687	1374,651	1 225,590	67,711	177	12,24%	15.9%

Source: Data compiled from: CPA Bank, *Ordinary General Assembly (OGA)*. Available at: <https://www.cpa-bank.dz/index.php/fr/nos-actionnaires/assembl%C3%A9e-g%C3%A9n%C3%A9rale-ordinaire-%C2%AB-ago-%C2%BB> (accessed on July 23, 2025)

BDL. (2025). *Management Report*. Available at:

<https://www.bdl.dz/wpcontent/uploads/2025/06/Rapport-de-gestion-2024.pdf> (accessed on July 23, 2025).

The examination of the financial indicators of Crédit Populaire d’Algérie (CPA) and Banque de Développement Local (BDL) for the year 2024 shows that both institutions possess solid foundations, enhancing their attractiveness to investors in the context of their capital opening. The total assets, which reflect their size and intervention capacity, amount to over 3,237 billion dinars for CPA and 1,835 billion for BDL. The substantial volumes of deposits and loans, particularly 1,862 billion in deposits and 1,273 billion in loans for CPA, highlight their key role in financial intermediation and in financing the national economy. These figures confirm their strong market presence and their ability to mobilize public savings, a decisive argument for reassuring potential investors.

In terms of profitability and financial strength, both banks show encouraging performance levels: a return on equity (ROE) of 16.3% for CPA and 15.9% for BDL, reflecting efficient management and the ability to generate attractive profits. Their solvency ratios, 21.63% for CPA and 12.24% for BDL, significantly exceed regulatory requirements, ensuring a safety margin against risks. This reassuring profile is further supported by a well-established branch network (165 for CPA and 177 for BDL), demonstrating strong territorial presence and close ties with clients.

Taken together, these elements indicate that the capital opening of these two public banks is built on solid financial ground and paves the way for a strategic repositioning based on transparency, performance, and the modernization of the Algerian banking sector.

Thirdly: Political and Economic Context Behind the Opening of Bank Capital

The opening of bank capital in Algeria is part of a wider reform agenda aimed at strengthening governance, meeting international standards, and expanding

financial markets. Driven by rising budgetary pressure and the push for digitalization and transparency, this shift reflects the need to diversify funding sources and modernize the financial system.

1. A Banking System Facing Structural Limitations

The Algerian banking sector has long suffered from a structural lack of dynamism, characterized by weak financial intermediation, the dominance of public banks, and a bank penetration rate below the regional average. This configuration restricts the financing capacity for SMEs and hinders economic diversification.

2. Structural Reforms as a Response to Governance and Performance Challenges

Policymakers have progressively moved toward a partial opening of public banks' capital in an effort to strengthen governance and transparency. The involvement of private partners is seen as a way to enhance efficiency through stronger performance requirements and better oversight.

The International Monetary Fund (IMF, 2021) underlined the need to monitor banking risks closely and to act promptly, reinforcing the call for improved governance. The reform remains subject to state regulation to ensure that national economic priorities are preserved over financial profit (Naceur & Omran, 2011).

3. A Changing Institutional Framework and Alignment with International Standards

On the political level, the reform is part of a broader strategy aimed at aligning with international standards in banking regulation and risk management. This adjustment is driven by the need to ensure financial stability and to build credibility with foreign investors. However, it also raises specific challenges related to local supervisory capacities and the potential vulnerability to external competition.

4. Budgetary Constraints and the Rationalization of Public Finances

The opening of capital is taking place alongside a clear intention to invigorate the Algerian stock market, which has long remained marginal within the national economy. The plan to list public banks such as the Crédit Populaire d'Algérie on the stock exchange reflects an effort to diversify sources of financing and to promote a more mature financial culture. However, this process remains constrained by the limited depth and liquidity of the local financial market, which may reduce the expected impact of such initiatives.

5. Budgetary Constraints and the Rationalization of Public Finances

Faced with declining revenues from hydrocarbon exports, Algeria has considered partial bank privatization as a way to reduce budgetary strain and

increase banks' capital reserves. The strategy seeks more sustainable financing models but raises concerns about balancing public service obligations with profitability goals.

Investment credit remains sluggish, and although domestic financial conditions are favorable, economic financing continues to be challenged by global uncertainty (Bank of Algeria, 2023, p. 6).

6. Digitalization and International Norms as Accelerators of Reform

The reform takes place within a global context shaped by banking digitalization and increasing demands for transparency and governance. Algerian banks are therefore required to adopt new technologies and respond to growing competition.

Since the 1990 law on money and credit, the reforms undertaken reflect a clear intention to adapt the banking system to the needs of economic growth by strengthening the solidity, efficiency, and intermediation role of public banks (Bouchelghoum, 2023, p. 12). The opening of capital thus appears as a logical extension of this modernization dynamic.

SECOND REQUIREMENT: THEORETICAL AND CONCEPTUAL APPROACHES TO BANKING MODERNIZATION

The modernization of the banking sector is a key driver of economic development, particularly in transition economies. This chapter is divided into two parts: the first outlines the theoretical foundations of banking modernization and the role of banks in development, while the second examines capital opening as a reform tool by assessing its benefits, limitations, and success factors.

Firstly: Theoretical Foundations of Banking Sector Modernization

Banking modernization is primarily an economic issue, rooted in theoretical frameworks that justify its principles and implementation methods. These approaches provide complementary insights, ranging from neoclassical models to analyses more focused on the role of banks in development.

1. Economic Approaches to Banking Modernization

a. The Neoclassical Theory of Market Efficiency

According to neoclassical economists, liberalization and competition promote more efficient resource allocation (Fama, 1970). When applied to banking, this view holds that modernization results from a more open market that enhances productivity

through competitive pressure (Stiglitz & Weiss, 1981). However, it tends to overlook the specific features of the banking sector, such as information asymmetry and network effects, which justify the need for appropriate regulation.

b. The Financial Liberalization Theory

McKinnon (1973) and Shaw (1973) introduced the concept of financial repression, which argues that interest rate controls discourage saving, restrict credit, and hinder economic growth. Their approach supports financial liberalization reforms aimed at attracting private savings and fostering investment. However, as noted by Demirgüç-Kunt and Detragiache (1998), such liberalization must be properly regulated, since inadequate oversight can lead to risky behavior and weaken the banking system.

c- The Financial Intermediation Theory

This approach highlights the essential role of banks as intermediaries between economic agents by reducing transaction costs and supporting real economy financing (Diamond, 1984). Modernization aims to strengthen this function by improving operational efficiency and diversifying financial products, especially in developing countries where banks often substitute for underdeveloped capital markets. It must also address challenges related to financial inclusion and risk management.

From a Schumpeter's (1934) perspective, banks are central to economic innovation by financing transformative entrepreneurs. They act as drivers of technological progress and growth, provided they possess strong risk assessment capabilities and institutional flexibility, which are often lacking in centralized or administratively driven banking systems.

Secondly: Capital Opening as a Lever for Modernization

Opening the banking capital by introducing private actors is often presented as a decisive step to strengthen the governance and performance of public banks. This transformation is based on several theoretical foundations but also raises crucial questions about its limits and conditions for success.

1. Theoretical Contributions of Capital Opening

a. Agency Theory and Market Discipline

Jensen and Meckling (1976) showed that the separation between ownership and control can lead to conflicts of interest. In this context, the introduction of private shareholders is intended to enhance the monitoring of managers and align their

interests with those of the owners, thereby improving organizational efficiency. This theory justifies capital opening as a means to reduce inefficiencies and increase managerial accountability.

b. Corporate Governance and Organizational Performance

Capital opening is generally accompanied by a redesign of governance mechanisms, such as the establishment of independent boards of directors, requirements for financial transparency, and the conduction of external audits (Shleifer & Vishny, 1997). These changes help to strengthen the credibility of banks with investors and customers, promoting better performance and easier access to financial markets.

c. Economic Signaling and Investor Attractiveness

The entry of private actors is also perceived as a strong signal sent to the markets, demonstrating a political will for reform and modernization. This signal can improve the banks' ratings and attract foreign investments, especially in transitioning economies (Megginson & Netter, 2001). However, this dynamic depends closely on the authorities' ability to establish an effective regulatory framework and manage the risks related to internationalization.

2. Limits and Criticisms of Banking Capital Opening

a. Loss of Public Control and Sovereignty Issues

A common concern expressed in critical discussions about opening the capital of public banks is the dilution of state control, seen as a threat to the strategic orientation of credit. This fear reflects a broader debate on economic sovereignty, where liberalization reforms are sometimes interpreted as weakening states' capacity to protect their national priorities. This loss of control raises debates about balancing economic openness and preserving strategic interests.

b. Financial Exclusion and Profitability Logic

The introduction of private shareholders, often motivated by profit-seeking, can lead to a focus on the most profitable segments, to the detriment of vulnerable populations or economically unattractive regions (Stiglitz, 1994). This profitability logic poses a major challenge to the public service mission of public banks, especially in terms of financial inclusion.

c. Institutional Risks in Fragile Contexts

In countries with weak institutions, capital opening can exacerbate conflicts of interest, encourage clientelistic practices, or generate increased instability in the

banking sector (Laeven & Levine, 2009). This reality highlights the importance of a robust legal and regulatory framework to support reforms.

3. Conditions for Successful Banking Capital Opening

For capital opening to yield positive outcomes, the state must enforce robust frameworks of transparency, banking supervision, and minority shareholder protection (Mishkin, 2001). In support of this, Caprio, Laeven, and Levine (2007) demonstrate that governance mechanisms are strongly correlated with bank valuation, particularly in contexts where supervisory institutions are weak. Governance reform should thus not be considered a secondary matter; rather, it represents a central lever in ensuring that capital opening is both credible and effective

THE SECOND TOPIC: CHALLENGES AND PROSPECTIVE SCENARIOS RELATED TO THE CAPITAL OPENING OF CPA AND BDL

The capital opening of Algeria's public banks, particularly CPA and BDL, represents a key step in financial sector reform, aiming to modernize operations and attract private investment. This chapter explores the main challenges, such as balancing profitability with public missions, and presents scenarios to assess how these banks can adapt sustainably within a competitive financial environment.

FIRST REQUIREMENT: STAKEHOLDER PERCEPTIONS AND EXPECTATIONS REGARDING THE CAPITAL OPENING OF CPA AND BDL

This chapter analyzes how key stakeholders perceive the capital opening of CPA and BDL, focusing on the views of public authorities, bank leaders, clients, and potential investors. Understanding these perspectives helps identify the factors driving support or hesitation and anticipates the challenges and opportunities linked to the modernization of Algeria's public banking sector.

Firstly: Perceptions of Institutional Stakeholders and Bank Executives

1- Position of Public Authorities

a. The Algerian state presents the partial opening of public banks' capital as a strategic reform aimed at financial diversification and reducing dependence on hydrocarbons. This initiative seeks to strengthen banks' financial soundness, improve governance, and enhance support for the real economy (Ministry of Finance, 2023).

b. Finance Minister Abdelkrim Bouzred emphasizes that the reform is part of a broader strategy to modernize the national banking sector. It focuses on diversifying

funding sources and improving the governance, performance, and transparency of public banks (APS, 2025).

c. The reform also aims to ease the State's budgetary pressure by attracting private capital and reducing reliance on public financing. It is viewed as a pragmatic step to increase the banking sector's autonomy and resilience in the face of economic shocks (BDL, 2025).

2. Views of CPA and BDL Executives

a. The banks' leadership views capital opening as a chance to modernize infrastructure, enhance service quality, and improve governance, especially as banking competition intensifies (Banque de Développement Local, 2025).

b. However, the institutions voice concern that greater financial pressure may threaten their social missions, notably assistance to SMEs and disadvantaged groups (APS, 2024).

c. The banks' executives stress that a successful transition depends on strong institutional support and continued State involvement to balance profitability with public service obligations.

Secondly: Expectations and Perceptions of Clients and Investors

1. Expectations of Individual Clients and SMEs

a. Clients such as SMEs and low-income households expect improved service quality, easier credit access, and expanded digital services. Digitalization is viewed as essential to improving customer experience and advancing financial inclusion (Banque d'Algérie, 2023).

b. Some clients remain wary that the pursuit of short-term profit could reduce social services and tighten credit access, especially for vulnerable groups. This reflects deep concern for the banks' longstanding social mission (APS, 2024).

2. Perceptions of Private Investors

a. Institutional investors, both domestic and foreign, perceive the capital opening as an opportunity to invest in a promising public banking sector that aligns with the country's efforts to diversify its economy and strengthen its entrepreneurial fabric (International Monetary Fund, 2023). They see it as a way to inject fresh capital, provide managerial expertise, and stimulate innovation in a sector that has long been characterized by structural rigidity.

b. However, these investors also identify major challenges, including the need to improve transparency and governance, the low liquidity of the local financial market, and the necessity to remain cautious given political and economic risks (Oxford Business Group, 2023). These factors may limit the scale and pace of their financial commitments.

The analysis of perceptions drawn from official and specialized documentation reveals broad consensus on the crucial importance of opening the capital of Algeria's public banks as a means of modernizing the sector. This reform is seen as a lever to strengthen financial soundness, improve governance, and expand the sources of economic financing. However, stakeholders hold differing expectations on sensitive issues, particularly the balance between economic performance and the preservation of social missions, as well as the management of risks associated with this transition. These tensions must be at the core of support and regulatory strategies to ensure the reform's success.

SECOND REQUIREMENT: TRANSFORMATION DYNAMICS AND PROSPECTIVE MODERNIZATION SCENARIOS

This chapter offers an analysis of the main transformation dynamics triggered by the capital opening of CPA and BDL. It draws on secondary sources (public reports, regulatory texts, economic analyses) to identify the current drivers of change while formulating plausible medium-term modernization scenarios. The aim is to assess the extent to which this reform can redefine the role and operations of public banks in a context of increasing demands for governance, digitalization, and competitiveness.

Firstly: Current Dynamics of Transformation in the Public Banking Sector

1. Improvement of Governance and Strengthening of Control Mechanisms

a. The capital opening is accompanied by increased demands for transparency, external auditing, and managerial accountability. These developments are supported by regulatory reforms introduced by the Bank of Algeria.

b. The presence of private shareholders fosters a results-oriented culture, the adoption of international accounting standards, and improved risk assessment. This represents a paradigm shift in the management of public institutions.

2. Accelerated Digitalization and Modernization of Banking Services

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

- a. Under the pressure of competition and new financial actors, public banks are accelerating their digital transformation (online banking, automation, mobile services).
- b. Capital opening is seen as an opportunity to mobilize resources for investment in financial technologies (fintech) and IT infrastructures, which were previously lacking.

3. Strategic Reorientation and Upgrading of Services

- a. The change in the economic model leads to a strategic shift toward more profitable segments (successful SMEs, export-oriented companies, urban clientele), transforming the traditional role of public banks.
- b. This transformation may result in a reduction of less profitable activities, raising questions about the preservation of the public service mission.

Secondly: Prospective Modernization Scenarios for CPA and BDL

Based on the identified dynamics, it is possible to construct three forward-looking scenarios by drawing on the method of strategic foresight Godet (2001) and the analytical frameworks developed by international institutions such as the IMF (IMF,2024).

1. First Scenario – Optimistic: Balanced and Inclusive Modernization

In this scenario, the capital opening proceeds in a controlled manner within a favorable institutional environment. It is accompanied by a set of structural reforms that enhance the efficiency, transparency, and innovation capacity of the public banks.

a. Main characteristics:

- Significant inflow of well-structured private capital (both national and foreign), strengthening equity without diluting strategic public control.
- Notable improvement in governance thanks to the entry of shareholders demanding performance and rigorous reporting, fostering greater accountability among management teams.
- Increased investments in digitalization and IT infrastructure (automation, cybersecurity, mobile services), facilitating financial inclusion and enhancing service quality.
- Synergy between public missions and profitability logic: banks manage to remain competitive while continuing to support SMEs, disadvantaged areas, and vulnerable households.

- Enhanced trust from citizens and investors due to regulatory stability, coherent public policies, and transparent communication.

b. Expected consequences:

An upgraded Algerian public banking sector that gains credibility and efficiency while preserving its socio-economic role.

2. Second scenario – Intermediate: Partial and Uneven Modernization

In this scenario, capital opening begins, but the resulting changes produce only limited transformation, often hindered by internal blockages or inconsistent reform implementation.

a. Main characteristics:

- Minority participation of private investors, sometimes symbolic, without real influence over strategic decisions.
- Institutional resistance (from administrations, unions, internal networks) slowing governance reforms or digital transformation.
- Spot improvements in certain areas (digitalization, credit procedures), but no deep transformation of the economic model.
- Retention of a social mission, but sometimes at the expense of performance: high costs, administrative delays, limited innovation.
- Lack of inter-institutional coordination, weakening the clarity of reforms for investors and users.

b. Expected consequences:

A partially modernized banking sector exposed to a dual risk: loss of competitiveness against private banks and inability to effectively fulfill social missions.

3. Third Scenario – Pessimistic: Drift Towards a Purely Financial Logic

In this scenario, capital opening is conducted hastily, without sufficient accompanying measures. Pressure from private shareholders drives decisions focused on immediate profitability at the expense of public service functions.

a. Main characteristics:

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

- Strong pressure from private investors to maximize dividends, reducing banks' ability to support unprofitable sectors.
- Reduction of local banking services, closure of some branches, refocusing on large accounts and solvent clients.
- Increased credit access requirements, excluding micro-enterprises, low-income households, or rural areas.
- Erosion of user trust and risk of social unrest, especially in poorly banked regions.
- Progressive withdrawal of the state from its active regulatory role, leaving market logics to dominate without sufficient safeguards.

b. Expected consequences:

A loss of identity for public banks, which become indistinguishable from commercial banks, exacerbating inequalities in access to financing.

Conclusion:

The capital opening of CPA and BDL is part of a structural adjustment dynamic in the Algerian banking sector, at a time when it is called upon to play a more active role in diversifying the national economy. Beyond meeting financial imperatives (such as strengthening equity and easing budgetary pressure), this reform carries broader ambitions: improving governance, digitalization, greater financial inclusion, and alignment with international standards.

However, the success of this transformation will heavily depend on how it is implemented. Although perceptions gathered are mixed, there is a consensus on the necessity of change, coupled with concerns about preserving the social role of public banks. Thus, successful capital opening requires rigorous management, clear regulation, and strong political commitment to balance economic efficiency with social justice.

To this end, it is recommended that the capital opening of CPA and BDL be pursued within a clearly defined and transparent institutional framework, ensuring that incoming private investors are aligned with long-term public objectives. Governance reforms should precede or accompany the operation to prevent value capture and to promote accountability. Regulatory safeguards must be reinforced to protect social mandates, particularly support for SMEs and underserved populations. Moreover, the process should be gradual, inclusive, and guided by strategic

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

communication to build trust and mitigate resistance from both internal and external stakeholders.

Bibliography:

1. Legal Texts

1. Law No. 86-12 of August 19, 1986, on the Regime of Banks and Credit, *Official Journal of the People's Democratic Republic of Algeria*.
2. Law No. 90-10 of 14 April 1990 on Money and Credit, *Official Journal of the People's Democratic Republic of Algeria*, No. 16, dated 18 April 1990.
3. Ordinance No. 03-11 of 26 August 2003, modifying and supplementing Law No. 90-10 of 14 April 1990 on Monetary and Credit, *Official Journal of the People's Democratic Republic of Algeria*.
4. Law No. 23-09 of June 21, 2023, on Monetary and Banking Law, *Official Journal of the People's*

2. Books

5. Godet, M. (2001). Strategic foresight: Problems and methods. Dunod.
6. McKinnon, R. I. (1973). Money and capital in economic development. The Brookings Institution.
7. Mishkin, F. S. (Ed.). (2001). Prudential supervision: What works and what doesn't. University of Chicago Press.
8. Rodrik, D. (2011). The globalization paradox: Democracy and the future of the world economy. W. W. Norton & Company.
9. Schumpeter, J. A. (1934). The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle (First published in German, 1911). Harvard University Press.
10. Shaw, E. S. (1973). Financial deepening in economic development. Oxford University Press.

3. Journal articles

11. Aboura, A., & Chahidi, M. (2017). Le système bancaire algérien: évolution historique, libéralisation du secteur et défis de modernisation. *Revue d'Économie et Management*, 1(2), 1–18.
12. Baba-Ahmed, M. (2007). Le secteur financier en Algérie: une réforme inachevée. *Finance & Bien Commun*, (28–29), 131–132.
13. Bensilette, Z. (2024). Establishing banking governance principles for risk management in the Algerian banking sector. *International Journal of Economics and Political Online*, 4(2), 1278. <https://ijeponline.org/index.php/journal/article/view/633>
14. Bouchelghoum, F. (2023). Le système bancaire algérien: un état des lieux pour la période 2009–2017. *Revue Algérienne de la Finance Islamique*, 10(10), 12.
15. Caprio, G., Laeven, L., & Levine, R. (2007). Governance and bank valuation. *Journal of Financial Intermediation*, 16(4), 584–617.
16. Diamond, D. W. (1984). Financial intermediation and delegated monitoring. *Review of Economic Studies*, 51(3), 393–414.
17. Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *Journal of Finance*, 25(2), 383–417.
18. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
19. Laeven, L., & Levine, R. (2009). Bank governance, regulation and risk taking. *Journal of Financial Economics*, 93(2), 259–275.
20. Megginson, W. L., & Netter, J. M. (2001). From state to market: A survey of empirical studies on privatization. *Journal of Economic Literature*, 39(2), 321–389.

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

21. Naceur, S. B., & Omran, M. M. (2011). The effects of bank regulations, competition and financial reforms on banks' performance. *Emerging Markets Review*, 12(1), 1–20.
22. Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance*, 52(2), 737–783.
23. Stiglitz, J. E., & Weiss, A. (1981). Credit rationing in markets with imperfect information. *American Economic Review*, 71(3), 393–410.

4. Reports and Working Papers

24. Bank of Algeria. (2023). *Annual report 2022 on the economic and monetary situation* (Chap. 4, p. 6). <https://www.bank-of-algeria.dz> (in French)
25. Bank of Algeria. (2024). *Annual report 2023* (Chap. 5: “Financial inclusion and digital services”). https://www.bank-of-algeria.dz/pdf/rapport_annuel_2023.pdf (in French, accessed July 23, 2025)
26. Demirgüç-Kunt, A., & Detragiache, E. (1998). *Financial liberalization and financial fragility* (IMF Working Paper No. 98/83). International Monetary Fund.
27. International Monetary Fund (IMF). (2021). *Algeria: 2021 Article IV consultation – Staff report* (IMF Country Report No. 21/1, p. 16). <https://www.imf.org/en/Publications/CR/Issues/2021/01/13/Algeria-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-50019> (accessed July 22, 2025)
28. International Monetary Fund (IMF). (2024). *Algeria: 2023 Article IV consultation – Staff report and press release*, April 12. <https://www.imf.org> (accessed July 23, 2025)
29. International Monetary Fund (IMF). (2023, December 12). *Algeria: Staff concluding statement of the 2023 Article IV mission*. <https://www.imf.org/en/News/Articles/2023/12/12/mcs121223-algeria-staff-concluding-statement-of-the-2023-article-iv-mission> (accessed July 23, 2025).

5. Conference Proceedings & Forum Contributions

30. Laksaci, M. (2015, January 27). *Structural reforms and transformation of the Algerian banking system: Achievements and prospects* [Speech]. Forum of the Bank of Algeria, Bank for International Settlements. <https://www.bis.org/review/r150127b.htm>
31. Meghaoui, E. H. (2001). L'évolution du secteur bancaire. In *L'Algérie sur la voie des réformes: Actes du colloque du 18 octobre 2001* (pp. 1–5). Groupe d'amitié France–Algérie, Sénat français. <https://www.senat.fr/ga/ga37/ga379.html>
32. Stiglitz, J. E. (1994). The role of the state in financial markets. In M. Bruno & B. Pleskovic (Eds.), *Proceedings of the World Bank Annual Conference on Development Economics 1993* (pp. 19–52). Washington, D.C.: World Bank.

6. Websites

33. CPA Bank. (2025). *Assemblée Générale Ordinaire (AGO)*. Available at: <https://www.cpa-bank.dz/index.php/fr/nos-actionnaires/assembl%C3%A9e-g%C3%A9n%C3%A9rale-ordinaire-%C2%AB-ago-%C2%BB> (accessed on July 23, 2025).
34. Banque de Développement Local (BDL). (2025). *Rapport de gestion 2024*. Available at: <https://www.bdl.dz/wp-content/uploads/2025/06/Rapport-de-gestion-2024.pdf> (accessed on July 23, 2025).

The Opening of Capital in Algerian Public Banks: A Prospective Analysis of the Challenges of Banking Sector Modernization – The Case of CPA and BDL

35. https://elwatan-dz.com/projet-douverture-du-capital-du-cpa-finabi-conseil-avertit-sur-deux-risques?utm_source=chatgpt.com

36. Agence Presse Service (APS). (2023, November 27). *2024... année de la réforme bancaire : vers la modernisation du système bancaire et la captation des fonds circulant hors-circuit*. <https://www.aps.dz/economie/163224-2024-annee-de-la-reforme-bancaire> (in French, accessed July 23, 2025)

7. Online Press Articles, Institutional Websites & Press Releases

37. Agence Presse Service (APS). (2024, February 12). *Banking reform: Concerns among small customers about the loss of local services*. <https://www.aps.dz/economie/172344> (in French, accessed July 23, 2025)

38. Agence Presse Service (APS). (2025, February 13). *BDL share offering: 85% of shares already subscribed on the stock market*. <https://www.aps.dz/economie/183022> (in French, accessed July 23, 2025)

39. Banque de Développement Local (BDL). (2025, January 6). *Press release – Launch of share sale*. <https://www.bdl.dz/communiqué-de-presse/> (in French, accessed July 23, 2025)

40. Ministry of Finance. (2023, November 21). *Ouverture du capital de deux banques publiques d'ici mi-2024*. Agence Ecofin. <https://www.agenceecofin.com/finances-publiques/2111-113869-algerie-le-gouvernement-annonce-l-ouverture-du-capital-de-deux-banques-publiques-aux-investisseurs-prives-d-ici-juin-2024> (in French, accessed July 20, 2025)

41. Oxford Business Group. (2023). *The need for capital market reforms in Algeria*. In *Algeria 2023 Report*, chapter on banking and finance. <https://oxfordbusinessgroup.com/reports/algeria/2023-report> (accessed July 23, 2025).